Sri Lanka Rupavahini Corporation – 2017

The audit of financial statements of the Sri Lanka Rupavahini Corporation for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 16(3) of the Sri Lanka Rupavahini Corporation Act, No. 6 of 1982. My comments and observations which I consider should be published with the Annual Report of the Corporation in terms of Section 14(2)(c) of the Finance Act, appear in this report.

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1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of Sri Lanka Rupavahini Coporation as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

(a) Sri Lanka Public Sector Accounting Standards 01

According to Paragraph 32 of the Standard, the entity should not set off the assets and liabilities and expenditure against each other unless otherwise required or permitted by a Standard. Nevertheless, the debit balances arose due to accounting errors amounting to Rs.5,885,385 had been set off against the agents' commission payable amounting to Rs.93,693,113 and due to that the agents' commission payable had been accounted as Rs.87,807,728.

(b) Sri Lanka Public Sector Accounting Standards 02

According to the Paragraph 9 of the Standard the stocks should be valued at the net realizable value or the cost whichever is less and shown in the financial statements, the stocks amounting to Rs. 204,463,930 had been shown at the cost in the financial statements without estimating the net realizable value. Out of these stocks, within the physically verified balance amounting to Rs. 6,633,973 included a stock balance valued at Rs.170,512 which could not be used and a non- movable stock balance amounting to Rs. 509,173 by 31 December 2017.

(c) Sri Lanka Public Sector Accounting Standards 07

According to the Paragraph 03 of the Standard, investments which is to be mature within 03 months should be considered as cash and cash equalled, contrary to that investment of Rs. 60,000,000 which is to be mature in 7 days and investment of Rs. 63,421,582 which is to be matured in one month had been shown under investing activities as cash outflow.

(d) Sri Lanka Public Sector Accounting Standards 16

Fully depreciated fixed assets costing Rs. 3,060,700,551 had been in further use due to the failure to review the effective life of non-current assets annually according to the Paragraph 51 of the Standards. Accordingly, action had not been taken for the revision of the estimated error and show the correct amount in the financial statements in terms of the Sri Lanka Public Sector Accounting Standard No. 08.

(e) Sri Lanka Public Sector Accounting Standards 38

Although the gross value and the cumulated amortization amount of intangible assets as at the open and closing date of the financial year should be disclosed according to the paragraph 118 (C) of the Standard, intangible assets valued at Rs.194,741,169 as per the financial statement had been shown at net value instead of the cost and cumulative amortization value also had not been disclosed.

(f) Sri Lanka Public Sector Accounting Standards 39

Even though the investment made by the Corporation in the ordinary shares of the Lanka News Institution should be shown at fair value in the financial statements according to the section 46 of the Standards, the value of the investment had been shown at cost, that is, Rs.1,104,000 and action had not been taken to identifying the diminution or appreciation of the value of the investment and adjust the relevant amount in the financial statements.

2.2.2 Accounting Deficiencies

Following observations are made.

(a) According to the provisions in the Economic Service Charges (Amendment) Act, No. 13 of 2015, the Economic Service Charge amounting to Rs. 1,602,873 for the quarter ending 31 March 2016 and Rs. 2,004,667 for the final quarter ending 31 December 2017 should be paid to the Department of Inland Revenue, provision had not been made in the financial statements.

(**b**) The accrued expenses of Rs. **5,995,000** for non-paid episodes, which were broadcasted during the year had been understated in accounts and as a result, intangible assets and creditors were understated from that value.

(c) Even though the accumulative depreciation as at 31 December 2017 should only be Rs. 8,718,732, while calculating as 20 per cent annually according to the depreciation policy of the company relating to the plant and equipment of Rs.21,796,829 purchased in the year 2016, it was accounted as Rs.12,107,848.

(d) The recovered amount of Rs. 74,676 in the year under review for the cassettes and library books that were issued but not returned by the employees who are not in service in the corporation and the sales amount of Rs. 235,050 received for the assets in the auction held on 18 November 2017, had been accounted as cash income received instead of calculating and accounting the profit or the loss by removing cost and accumulated depreciation from the accounts.

(e) Due to non-calculating of capital allowances of Rs.12,066,202 for the communication utility valued at Rs. 36,198,605 received from the Korean Government for peace channel during the year under review, the differed tax assets and the income tax liability were understated and accounted for at Rs.6,757,073

(f) When accounting the accrued expenses of the year 2017 relating to a tele-drama with 50 episodes each Rs.140,000 purchased in the September 2016, accrued expenses was overstated by Rs. 350,000 by 31 December 2017 due to incorrect adjustments made time to time.

(g) When adjusting provision for debtors impairment during the year under review, due to brought forward provision for impairment account balance of Rs. 19,038,806 accounted as Rs.18,885,093 the provision for impairment for the year had been overstated by Rs.153.713.

(h) Due to accounting of receivable amount of Rs.2,290,000 accounted as Rs. 850,000 from a client debtor, client receivable balance and air time sale income had been understated each by Rs.1,440,000.

(i) The work in progress carried forward from previous years amounted to Rs. 498,227 had been written off to the income statement of the year under review and even though out of this Rs. 183,051 should be re-added to the profit before tax, it was not so done. Further, the remaining amount of Rs. 315,176 which was not effected to the working capital variance had been considered erroneously while calculating the working capital variance in the cash flow statement.

(j) Fixed Deposits of Rs. 63,421,582 maturity in 1 month which should be accounted as cash and cash equivalents had been accounted under non-current assets of the statement of financial position.

2.2.3 Unexplained Differences

Following observations are made.

(a) According to the financial statements balance of Value Added Tax Control Account under the current liability was Rs.421,738 and but according to the Tax Return accrued balance was Rs.7,044,726 and therefore a difference of Rs.6,622,988 had been observed.

(b) Even though, according to the financial statements provision for accumulated depreciation for Property, Plant and Equipment as at 31 December 2017 was Rs.3,417,087,741, according to the accumulated depreciation schedule it was Rs.3,430,044,710 and a difference of Rs.12,956,969 had been observed.

2.2.4 Lack of Evidence for Audit

Following evidences mentioned above the transactions were not presented to audit.

Transaction	Value	Evidences not Presented
	Rs.	
Agent Commission	93,693,113	Age analysis
Stock – Spare parts	196,807,786	Survey reports
The land where the Corporation situated	46,018,720 (Rate assessment)	Deed, transfer papers and Gazette notification

2.3 Accounts Receivable and Payable

The following observations are made.

(a) Credit Sale of Airtime-Client Debtors

The client debtor balances as at 31 December of the year under review amounted to Rs. 537,168,950 and the following observations are made in that connections.

(i) The impairment adjustment as at 31 December of the year under review amounted to Rs. 93,442,927 or 17 per cent of the above debtors. That comprised 85 per cent or Rs.38,272,330 of the client debtors totalling Rs.45,030,977 in respect of which legal action had been taken and the debtors amount to Rs.55,166,597 which had been classified as irrecoverable under any circumstances whatsoever. It was observed that such weakness in the recovery of those debts had even affected the liquidity of the institution.

(ii) Out of the total debtors balance as at 31 December 2017, Rs. 255,272,099 or 48 per cent represented by 18 debtors of over Rs 5 million.

(iii) It was observed that institutions relating to Rs.21,553,776 included in the employee debtors balance of Rs.537,168,950 as at 31 December 2017 had been recommended to write-off due to closed, lack of sufficient amount to recover or subjected to time bar.

(iv) The receivable debtors balance as at 31 December 2017 totalled to Rs.4,440,000 which was receivable from 5 Government Institutions for the production of programmes using the facilities of the Corporation in 2016 and 2017.

(v) According to Section 11 of the Prescription Act No. 68 of 1969, cases should be filed within a period of 6 years for the recovery of debts from the clients who do not pay debts and if cases are not filed, that transaction is subject to prescription. It was observed that there is a doubt of the recovery of debt older than 6 years as at 31 December 2017 amounting to Rs.70,182,818 due from 132 debtors

(vi) Instances of refusal by the clients to pay the money until the telecast of all the advertisement as specified in Special Packages were observed. The receipt of money for the advertisements telecast had been delayed and in the cases where the advertisements not telecast were only a very few and there was a long delay to obtain the full amount until all advertisements were telecast and that had been the reason for the increase of such debtors.

(b) Sundry Debtors

The sundry debtors of the Corporation as at 31 December 2017 amounting to Rs.82,795,918, and sums totalling Rs.30,633,476 receivable from 3 main institutions from the year 1995 were included in that debtors balance. The impairment value of the sundry debtors amounted to Rs.27,778,225 or 33 per cent. In view of making impairment adjustments instead of taking action for the recovery of the long terms debtors balances, it was observed that the debt recovery control of the Corporation is at a weak level.

(c) Advances and Deposits

(i) The advance of Rs. 1,200,000 which had been paid to a sports association in October 2014 had not been settled even up to the end of the year ended under review.

(ii) A musical show planned to conduct in a theatre for a dead artist in November 2017 and it was cancelled later and a sum totalling Rs. 624,803 had been spent on advance to the auditorium for the concert, taxes for the reservation of the theatre, refreshment expenditure and other expenses. The tax of Rs. 390,203 paid to the Urban Council and an advance of Rs. 210,000 paid for the theatre totalled to Rs. 600,203 had not been recovered until 30 June 2018.

(iii) Even though the advances should be settled immediately after the completion of the purpose, the settlement of lodging advances totalling Rs.552,000 relating to 10 instances obtained by 6 employees from 8 April to 04 October 2017, foreign travel advances amounting to Rs.5,555 obtained on 30 August 2017 by the Director-General and an advance of Rs. 45,000 obtained by the former Chief Accountant on 06 January 2015 had not been settled even by 31 December 2017.

(d) Payable Accounts

(i) Dividend Tax of Rs. 32,368,342 payable to the Treasury on profits earned by the Corporation in 2011 had not been paid up to the end of the year under review.

(ii) A creditor balance of Rs. 3,520,954 relating to countertrade transactions conducted in the years 2014 and 2015 was included in the client creditor balance of Rs. 17,708,070 as at 31 December 2017. Due to not entering to the agreements with the clients relating to this transactions, since the clients were unable to claim money and it was not considered to take this money to the income.

(iii) According to the financial statements creditors balance amounting to Rs.6,654,468 shown under other financial liabilities indicated a credit balance of Rs. 4,398,022 or 66 per cent existing from the year 2011 to the year 2015 and action had not been taken for the settlement of that balance.

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

Non-compliance with the following laws, rules, regulations and management decisions were observed.

	Reference to Laws, Rules, Regulations	Non-compliances
(a)	Declaration of Assets and Liabilities Act No. 01 of 1975 of National State Assembly amended by Act No. 74 of 1988	Eleven officers in executive level had not submitted declaration of Assets and Liabilities who were entitled to declaration of Assets and Liabilities for the year 2016/2017.
(b)	**Establishment Code of Democratic Socialist Republic of Sri Lanka** Chapter XXX Section 1.4.1 and Chapter IX Section 2.2	A sum of Rs. 1,479,184 equal to 10 per cent deducted from the fee paid for Corporation resource persons over the years, has been accounted for under the other financial liabilities of the financial statement without being crediting to the Consolidated Fund. Out of this amount a sum of Rs. 1,382,749 related to the year 2016 and before that.
(c)	**Financial Regulations of the Democratic Socialist Republic of Sri Lanka**	
	(i) Financial Regulation 155	Replies to 07 Audit Queries issued in relation to the year 2016 and 16 Audit Queries issued in relation to the year 2017 had not been furnished.

	Reference to Laws, Rules and Regulations	Non-compliance
	(ii) Financial Regulation 371(2)(b) as amended by the Public Finance Circular No.03/2015 of 14 July 2015	• Even though the maximum ad hoc sub-imprest that can be granted in one instance should not exceed Rs.100,000, exceeding the maximum limit of ad hoc sub-imprests a sum of Rs.16,625,475 had been granted in 76 instances by 31 December of the year under review for programmes, lodging, supplies and purchasing. • Even though the ad hoc sub-imprest can be granted only to the officers in the Staff Grades, advances totalling Rs.14,628,215 had been granted during the year 2016 to the Non-staff Grade Officers in 66 instances out of the above 76 instances.
	(iii) Financial Regulations 371(2)(b)	Even though the advances should be settled soon after the completion of the purpose, advances of Rs. 5,439,528 which were granted in the period from the year 2013 to 2017 had not been settled even by end of the year under review.
	(iv) Financial Regulations 396	If the validity period of a cheque for a payment expires, the amount of the cheque should be noted as a liability in the appropriate ledger. Nevertheless, the cancelled cheques valued at Rs. 9,412,058 of the years 2013 to 2016 had been brought to account as a financial liability.
(d)	Ministry of Finance Circular No. මු/ර/1/1/2015 dated 15 May 2015 Section 3(a)	An incidental allowance of US $ 40 per day had been paid for the officers to recover expenses in abroad such as travelling expenses, telephone expenses and airport expenses when they travelling abroad. However, except to obtaining this allowance as incidental allowances 04 officers of the Corporation had paid a sum of Rs. 174,928 in foreign travelling for travel expenses contrary to the circular.
(e)	**Public Enterprise Circular** **---------------------------------------**	
	(i) Circular No. PED/12 dated 02 June 2003 Section 6.5.1	The draft Annual Report for the year under review had not been presented to the Auditor General within or after 60 days after the close of the financial year.
	Sections 9.3.1(vi) and (vii)	Even though when a particular post is vacant or the holder of the post has not reported for service, an acting post for acting for a maximum period of 03 months may be granted, there were 12 instances of acting for more than 3 months in the Corporation. Out of those, 03 officers had been acting in posts over periods ranging from 02 years to 05 years whilst 05 officers had been acting in posts for more than 05 years. Further, there were 05 acting in posts which had been granted personal to the officer.

(iii) Circular No. PED 01/2015 dated 25 May 2015 Paragraph 2.3	• A sum of Rs. 11,271,954 had been paid as fuel and travelling allowances for 151 officers holding posts below the HM 1-1 category who are not entitled to transport and fuel allowance.
Paragraph 3.2	• The approval of the Secretary of the Ministry for the excess use of 3,616 litres of fuel used by the Chairman and the Director-General and the approval of the Board of Directors had not obtained for the excess use of 3,023 litres of fuel used by the Working Director and Director (Sales). It was observed that the amount of fuel obtained without approval amounted to Rs. 838,811.
(iv) Circular No. PED 03/2017 dated 11 December 2017.	• Even though the bonus payable for the staff by the Corporation as per the circular should be Rs. 5,000, the Corporation had been paid bonus totalling of Rs.41,514,627 as Rs. 45,000 per person as mid-year, year-end bonus and gift vouchers for the year 2017. Similarly, contrary to the relevant circular instructions bonus of Rs.207,328,836 had been paid for the period from the year 2012 to the year 2016. • Although, institutions that report a loss should be obtained the approval of the Department of Public Enterprises with the recommendation of the Secretary to the Ministry prior to the payment such approval had not been obtained. • Even though, the validity period of the 16 gift vouchers of Rs.5,000 each which were obtained for bonus payment for the year 2015 had been expired by 20 December 2016 and 08 gift vouchers obtained for the year 2016 had been expired by 31 December 2017, attention had not paid to get the extension of the validity period of that vouchers.
(v) Circular No. PED 04 of 01 January 2003, Circular No. PED 58 of 29 April 2011 and PED Circular No. 3/2015 of 17 June 2015	Under the provisions of the Circular, the Chairman of the Corporation was entitled to a monthly allowance inclusive of all allowances as Rs. 30,000 from year 2003 to 2011 and Rs. 60,000 from 01 May 2011 to June 2015 Rs. 60,000 and Rs. 80,000 from June 2015. However, in spite of these provisions, by the Board decision No. 759.07.00 (i) dated 07 September 2010 had approved an additional refreshment allowance of Rs. 30,000 from 01 October 2010 in addition to the above allowance to the Chairman of the Corporation and that allowance had been paid monthly up to the date of this report. Accordingly, a sum of Rs. 2,610,000 had been paid contrary to circulars issued by the Department of Public Enterprises for Chairmens who were worked from 1 October 2010 to 31 December 2017.

(e)	Public Administration Circulars No. 02/2008 dated 06 February 2008 and No. 05/2008(1) dated 24 January 2018.	It was mentioned that the Cabinet of Ministers had decided that all Government Institutions should introduce the Citizens / Customer Charter for their institutions. Even though the Sri Lanka Rupavahini Corporation also has to introduce a Citizens / Customer Charter as per the circular, Until 30 June 2018, action had not been taken to introduce that charter.
(g)	The credit policy of the Corporation approved by the decision of the Board of Directors on 22 March 2004.	• Even though, all incorporated institutions and the agents should produce a Corporate Guarantee they are to be eligible for credit facilities, such guarantee had not been obtained from any institutions or agents who had obtained the services of the Corporation on credit basis. • Even though the credit period allowed by the Corporation according to its credit policy is limited to 30 days, the fact that the Corporation had not abided by its credit policy and a debtors balance amounting to Rs.384,684,130 remaining over periods ranging from 31 days to 5 years. • Even though it is specified that a penalty of 2.5 per cent of the face value of the debtor balances receivable should be imposed on the relevant client and further services should not be provided to institutions which have receivable balances, it had not been so done. • Even though Annual and Common agreements should be signed with all advertising agents, such agreements had not entered with any single advertisement agent. • Even though legal action should be taken against the relevant institutions for the recovery of the balances receivable older than 06 months, such legal action had not been taken in connection with most of the recoverable balances holders older than 06 months.

2.5 Transactions not Supported by Adequate Authority

The Cabinet of Ministers had granted the approval in December 2014 for the running of a television channel by way of satellite technology in a studio established in Italy or other country in Europe equipment necessary for that on temporarily lease basis with the concurrence of the Ministry of Finance. An advance of Rs. 3,454,279 for the preliminary work in this connection had been granted on 02 January 2015 to a private institution in Pannipitiya who are distributing international satellite without entering into a written agreement or the concurrence of the Ministry of Finance. Nevertheless, the activity had been totally abandoned after January 2015 whilst action had not been taken for the recovery of the advance granted.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, financial results of the institute for the year ended 31 December 2017 had resulted a deficit of Rs.193,927,831 as compared to corresponding deficit of Rs.293,338,943 for the preceding year thus it was observed an improvement of the financial results by Rs.99,411,112 or 43 per cent in the year under review. Decrease in cost of sales by Rs. 34,109,775 and increase in the operating income by Rs. 66,212,857 had mainly attributed to the decrease of above deficit.

In analysing financial results of the year under review and of 04 preceding years, the profit for the year 2013 had been turned to a loss in the year 2014. That loss continuously increased up to a deficit of Rs. 293,339,943 in the year 2016 and the loss was decreased to Rs. 193,927,831 in the year 2017. However, in considering personnel emoluments, state tax and depreciation on non- current assets, the contribution continuously shown a surplus and in the year 2013 contribution had been a sum of Rs.1,166,995,894 and it had decreased up to Rs. 1,094,480,917 in the year under review.

3.2 Analytical Financial Review

(a) The Accumulated Fund as at Rs 01 January 2017 was Rs. 381,494,330 and at the end of the year under review the Accumulation Fund had been reduced up to Rs.182,566,499 after adjusting the loss incurred during the year under review by Rs. 193,927,831 and the previous adjustments made in the year. According to the budget prepared for the year 2017, the estimated accumulated fund balance for the year 2017 had been Rs.536,475,000, that was reduced by Rs. 353,908,501 or 66 per cent.

(b) It shall be the duty of the governing body of a Public Corporation to conduct the business of the Corporation so that the ultimate surpluses on revenue account shall at least be sufficient to cover the ultimate deficits on such account over a period of five years or such other period as may be determined by the Minister of Finance, under the Section 7(1) of the Finance Act No.38 of 1971. However, while analysing the performance of the financial statements for the past three years it has not reached to that expectation position, and the nearest five-year net financial result totalled a loss of Rs. 998,436,000.

3.3 Legal Action Initiated against or by the Corporation

The following observations are made.

(a) Ten cases had been filed by external parties against the Corporation. Although the Compensation amount claimed by the complainants was Rs.745,540,000, this was not disclosed in the financial statements. Lawyer fees amounting to Rs.3,787,950 had been paid by 31 December 2017 for these cases.

(b) The Corporation had filed 20 cases against the 14 Client Debtors as at 31 December 2017 and the amount the Corporation expects to recover from those cases amounted to Rs.35,128,251. Out of that, the court ordered the debtors to pay Rs. 6,327,721 to the corporation but appeals have been submitted by the debtors. 03 cases of debtors from whom are debt due to recover Rs. 908,652 have been kept aside because it is difficult to find correct addresses to hand over summons. Lawyer fees amounting to Rs.1,067,750 had been paid during the year under review for those cases.

(c) Two persons had filed cases against the corporation requesting a compensation of Rs. 1 million against stopping a live program broadcast on 04 December 2008 stating that human rights had been violated. A sum of Rs. 1,182,650 had been spent as legal fees for the case as at 31 December 2017.

(d) Three cases filed by the corporation against three companies for the recovery of total compensation of Rs.61,191,484 as Rs.50,000,000 compensation for the unauthorized use of a name relating to Corporation owned drama, rent and electricity receivable of Rs. 11,191,484 for using Corporation owned towers and a sum of Rs. 1,562,250 had been spent as legal fees at the end of the year under review for these cases.

4. Operational Review

4.1 Performance

4.1.1 Planning

Following observations are made.

(a) The Corporation had evaluated the Strengths, Weaknesses, Opportunities and Threats in its business environment. Even though, the activities to be minimize the weaknesses included there had been identified in the annual action plan, due to the bad financial situation of the Corporation, it was observed that none of the planned tasks could have been implemented to minimize these constraints.

(b) The Corporation's Board of Directors, consists with 7 members including the Chairman. 10 Board Meetings were held in the year 2017, out of which, the Director appointed by the Treasury had attended only for 06 meetings.

4.1.2 Activities and Review

(a) Although the Action Plan has been prepared in relation to the purpose identify the objectives of the year 2017 Corporate Plan prepared by the Corporation for the period from 2017 to 2019, due to the bad financial situation of the corporation, it was stated that more activities out of the main 3 objectives and functions of the Corporation such as improving viewers by telecasting quality programmes, creating an institute with financial stability and creating an efficient corporate management, had not been commenced and some of the activities were started but not finished.

(b) According to the financial forecast of the Corporate Plan prepared for the period of 2017-2019, although it was planned to obtain an air time sales revenue of Rs.2,403 million and a profit before tax of Rs. 10 million, as at that date the air time sales revenue was Rs. 1,778 million and the loss before tax was Rs. 193 million.

(c) The Corporation purchased and telecast 10 tele dramas in 2017 and out of that 6 dramas had incurred a loss of Rs. 11,763,441.

(d) During the year under review, the total cost of Rs. 20,237,852 incurred for 08 programmes with 166 episodes including air time cost and only a sum of Rs. 22,031,991 had been received as income, thus; a low profit of Rs. 1,794,139 had been earned as profit from those 8 programmes.

(e) The Corporation received Rs. 36,198,605 worth of machinery, plant and equipment under a foreign funded project during the year under review and a sum of Rs. 2,363,177 had been spent for clearance. When calculating the income tax, no capital allowance had been reimbursed for these equipment and capital allowance reimbursed only 33 1/3 per cent or Rs. 787,726 on clearance charges.

4.2 Management Activities

Following observations are made.

(a) There were 29 applications for access to the Corporation's information received during the year according to the provisions of the Right to Information Act No. 12 of 2016 and out of that 02 applications were rejected in terms of Section 5 (1) (2) of the Act. There were appeals for two of the information submitted, and these appeals had not been answered until 30 June 2018. Reasons for refusing had not been presented for rejected two applications.

(b) An amortization amount of Rs. 27,088,238 for 05 tele dramas and 02 foreign films the Corporation bought from the outside, but could not telecast the scheduled number of episodes during the contract period had been included in the programme amortization amount of Rs. 55,920,730 in the year 2017. It was further observed that these programs purchased outside had been amortized without earning income due to the lack of sufficient provisions to broadcast the number of episodes during the contract period.

(c) When providing air time to clients it was provided the airtime at a much lower rate card than the approved rates of the corporation. Even though relating to 05 transactions which were considered in audit, receivable amount as per rate card rates were Rs.183,438,334, and the recovered amount for those were Rs.83,774,235 and discounts of Rs. 99,664,099, or 55 to 83 percent, had been offered.

(d) Without purchasing directly from the producer a drama with 50 episodes had been purchased under a contra trade transaction from a state bank of that state bank purchased from the producer. For this, the Corporation had provided an air time valued at Rs. 375,000 during one episode. Accordingly, the Corporation received a sum of Rs.9,233,973 from 24 episodes, which were telecast up to 31 December 2017 and the cost incurred by the Corporation, including the air time cost given to the Bank was Rs. 10,006,063 and a loss of Rs. 772,090 had to bare.

(**e**) As a result of not taking action to purchase the sets of question papers prepared for the year **5** scholarship examination in the year 2017 to sell, out of the **60**,**000** sets of question papers purchased, only **44**,**550** had been sold at the price of Rs.250 each. From the remaining sets **15**,**450**, **733** sets were sold at Rs.**200** each, **70** sets at Rs. **150** each and after August **2017** for the scholarship in the year **2018**.

(**f**) **A** private newspaper agency had been given an airtime worth of Rs. **3**,**030**,**564** without an agreement in **2014** as a contra transaction with the objective of carrying out publicity work mutually with media institutions. The advertising service to be obtained by the Corporation relating to this transaction had not been obtained up to the end of the year under review.

(**g**) According to the financial statements client debtors amount as at 31 December 2017 was Rs. 537,168,950. It was observed that the discounts and benefits of over 55 per cent were provided to clients in airtime sales and it was observed if the airtime was priced at the correct rate, the debtors balance and the airtime sales revenue should be much higher.

(h) The Corporation had invested a sum of Rs.1,104,000 in the years 1985 and 1992 for the purchase of shares of Lanka News Institution which was not directly related to broadcasting on television without the concurrence of the Minster in charge of the subject of Finance and the approval of the relevant Minister for the investment in terms of Section 15 of the Sri Lanka Rupavahini Corporation Act, No. 6 of 1982. No dividends whatsoever had been received up to the year 2017 and the Corporation did not have any adequate letters and documents to be produced to the Lanka News to establish to confirm the value of the investment and as such it was not possible to obtain the share certificates.

(i) Although tax invoices must be issued before provide the airtime in general trade agreements, according to the recovery policy of the Corporation, after providing the full air time according to the agreement the invoices were issued and collecting money. It was observed that this policy has adversely affected to the recovery of the money due to the Corporation.

(j) According to a personal invitation from a Buddhist monk of the United States of America for a campaign for the charity event, in October 2017, five officers of the Corporation had left and a sum of Rs. 1,375,660 had been spent for this purpose. In addition to the Producers, Producer Assistant, Cameraman who should compulsorily involved in the event, a Deputy Director and a Marketing Executive who were not related to this event had participated in the tour and a sum of Rs. 550,264 had been spent for them. Even though the charity event had been organized to conduct on 21 and 22 of October 2017, this team spent 10 days in the tour and to the above payment all the expenses incurred for the entire duration of the visit were included.

4.3 Operating Activities

The following observations are made.

(a) Exceeding the overdrafts limits of Rs.145,000,000 and Rs. 10,000,000 given relating to two bank current accounts maintained by the Corporation, overdraft facilities had been obtained over the limit in 22 instances and a sum of Rs. 30,415,053 had been paid as overdraft interest during the year under review.

(b) Action had not been taken to get the cassettes returned or recover the loss from the relevant officers, related to 2,663 cassettes valued at Rs. 8,260,435 not returned even by the end of the year under review after lending them from the library since the year 2000 by 181 officers.

(c) A former Assistant Director of the Corporation was released for official duties of the Department of Government Information from August to 31 December 2014 and due to refuse to reimburse by the Department of Government Information the salaries and allowances totalling Rs. 347,150 paid to that officer relevant to that period by the Corporation it was written off from the accounts of the year under review.

4.4 Transactions of Contentious Nature

The following observations are made.

(a) A Director Production, a Camera Director and a Management Assistant of the Corporation were released on full time basis to the Sri Lanka Telecommunication Regulatory Commission Sri Lanka Telecommunication Regulatory Commission (TRCSL) for more than three months in the year 2015 on the request of the Director of the Commission for designing a documentary film planned to create reconciliation among communities. This 03 officers had personally obtained a sum of Rs. 64,383,813 from the Commission for this production. It was also observed that there was no provision in the Corporation for this release and facilitating to obtain money from Telecommunications Regulatory Commission.

(b) In addition to the combined allowance paid to the employees of the Corporation for external tele dramas and programs, Rs. 8,000 was paid as house rent and Rs.1,000 was paid as accommodation allowances per day without any approval.

(d) The Public Administration Circular No. 26/99 dated 18 May 1990 had emphasized that alcohol should not be served in government ceremonies and that the rule should be followed strictly and the Government has decided that Public Corporation Chairpersons, Board Members and all officers of State Corporations and Statutory Boards should not participate to the ceremonies with alcohol in terms of the Public Administration Circular No. 148 of 06 October 1978. According to the test checks, contrary to this rules the Chairman of the Corporation, the Director General and other officers of the Corporation, had conducted Programmes such as budget talks with business meetings and “Tharu Samaga Avurudu” which were contrary to the objectives of the Corporation at various hotels and the participants have been served with alcohol worth Rs. 1,040,973. It was observed at the inspections that the addresses of the two institutions mentioned in the payment bills were fake and there were no business places, houses or properties in such places.

4.5 Apparent irregularities

The following observations are made

(a) Following observations are made in relating to the files of the ICC Championship Trophy cricket tournament in England conducted from 01 June to 18 June 2017.

(i) Four officers of the Corporation had been sent to England for analysis of the tournament. A sum of Rs. 1,274,808 had been spent on the food allowance, worm clothes allowance, visa charges, and accommodation and transport expenses of the officers, from the sponsorship funds of Rs. 23,000,000 received to the Corporation. In addition to the Producers, Assistant Producer and Cameramen, who should compulsorily participate in a media coverage, the Acting Director and Marketing Executive of the sales section had participated to this event. A sum of Rs. 614,500 had been spent for that 2 officers for their subsistence, food allowances, warm clothing, visa fees, and accommodation and travel expenses in England. Even though, the revenue received by sales of airtime should be used to progress of the Corporation, at present it was observed that the money was being used for foreign tours of officials.

(ii) According to Corporation is approved payment register, a Technician who is participating for an indoor interviews will have to pay an allowance for announcing Rs. 5,000. However, due to an artist who participated in the championship trophy indoor interview paid a sum of Rs. 7,500 each, and a sum of Rs.117,500 had been over paid to 22 artistes in 47 occasions. Also approved hosting allowance for an Artist who involved in the indoor interview is Rs.400 and the hosting allowance should be Rs. 18,800 for a total of 22 artists in 47 occasions, but the actual expenses paid was Rs. 40,420, thus a sum of Rs. 21,620 had been over paid.

(iii) Airtel Lanka Pvt Ltd, which sponsored the tournament, had been provided with an airtime worth of Rs. 58,750,000 for Rs.12,000,000 with 80 per cent discount and from that the Corporation had to bear a loss of Rs.46,750,000. Similarly, Emirates Pvt Ltd, also had been provided with an airtime worth of Rs. 28,135,000 for Rs. 11,000,000 and from that the Corporation had to bear a loss of Rs. 17,135,000.

(c) The Chairman of the Corporation has informed the Audit on 07 February 2017 that he had submitted the original copy of the bill to get refund the deposit of Rs.425,500 shown under the refundable deposit that was deposited on 16 September 2008 for obtaining fuel from a private filling station. But until 31 May 2018, the deposit had not been obtained.

(d) A tax of Rs. 997,200 had been omitted due to the invoices for the Value Added Tax was issued for Rs.7,002,800 instead of the issue of invoices for a sum of Rs.8,000,000 to a client debtor.

4.6 Idle and Underutilized Assets

The spare parts at the Engineering Division valued at Rs. 18,052,749 remained as non-moving stocks over a period exceeding 10 years and those had not been subjected to the annual stock verifications as well. Action had not been taken either for the disposal of those stocks as they are not being used or for taking any of the appropriate course of action.

4.7 Uneconomic Transactions

According to the information received to audit, a sum of Rs. 12,238,972 had been spent during the year under review in 232 instances on special lighting equipment, sound equipment, projection machines, flooring, musical instruments, and power generators rented out to various types of studios and external produce works continuously by the corporation. Attention had not been made to purchase and use these types of equipment usually required for production programmes.

4.8 Identified Losses

Following observations are made.

(a) It was entered into a transaction valued at of Rs. 10,000,000 to provide airtime on an oral agreement agreed with the former Director General and the National Savings Bank Chairman in December 2014. Under this the Corporation provided an airtime worth Rs. 20,849,000 at a price of rate card and 190 free trailers each 05 seconds, 56 free trailers each 45 seconds. However, due to the absence of a written agreement for this transaction, it was not possible to recover Rs.10,000,000 or legal action could be taken against the client until the end of the year under review.

(b) In the recruitment of Technical Assistants to the Corporation, they have to enter into an equal bond of Rs. 150,000 and in addition two persons as guarantors. The value of such bonds is being charged from the officer in an instalment basis and 06 Technical Assistants recruited from 2005 to 2015 had left before the end of contract period but, action had not been taken to recover a sum of Rs. 435,684 from them or from the guarantors.

4.9 Lands not Transferred Formally

Action had not been taken to get the legal title to the land with a high value about 8 acres in extent and the building complex situated on the Bauddhaloka Mawatha, Colombo 07 in which its Head Office is functioning over the period about 35 years since the inception of the Sri Lanka Rupavahini Corporation in the year 1982 and to disclose the assessed value of the property in the financial statements.

4.10 Staff Administration

(a) Following observations are made relating to the staff of the Corporation as at 31 December 2017.

(i) The approved staff of the Corporation had is 985 and the permanent staff deployed in service is 573 and 66 officers had been recruited for permanent posts on casual and contract basis. As such, there were 381 vacancies in different permanent posts whilst there was an excess of 35. Similarly, there were89 acting posts.

(ii) Seventeen employees had been recruited on casual and contract basis for 03 posts not included in the approved cadre by the letter No. DMS/E4/37/4/231/1-1 dated 30 June 2011 of the Director General of Management Services under which the staff for the Corporation was approved.

(iii) Thirty five officers had been recruited to 08 posts in the approved cadre as at 31 December 2017 in excess of the number approved.

(iv) According to the letter of the Director General of Management Services referred to above, several posts had been approved to the person who were holding the posts as at 30 June 2011 had been approved. But as at the end of the year under review, there were 326 officers holding posts personally by the officers concerned. Even though officers recruited on casual and contract basis cannot be retained in such posts it was observed that there were 07 officers in such posts and 05 acting posts.

(b) Contrary to the instruction given in the letter which contain the appointment of the cadre of the Corporation and not agree with the Section (3)(1)(a) of the Sri Lanka Rupavahini Corporation Act, No. 6 of 1982 a working director had been appointed by the Minister on 23 June 2017 and various allowances amounted to Rs.415,534 had been paid by the Corporation to the officer up to 31 December 2017. Similarly, it was agreed to provide 150 litres of fuel and accordingly instead of only 900 litres of fuel for the 06 months, 1,177 litres of fuel and a Corporation motor vehicle had been provided. Also, a total amount of monthly allowance and communication allowances of Rs. 314,494, a vehicle and 1,205 litres of fuel had been given to the Working Director who had been appointed without the approval from January to June 2017.

4.11 Market Share

According to the Survey on Television Viewers conducted in the year 2017 by the Lanka Market Research Bureau (LMRB) relating to 13 Television Channels, the Market Share of 3.4 per cent of the Sri Lanka Rupavahini Corporation as at 01 January 2017 had increased to 4.2 per cent by December 2017. Similarly, when considering the market share of the years 2014, 2015 and 2016 it was 6.7 per cent, 6.1 per cent and 4.7 respectively and it was observed that the market share was continuously deteriorated from the year 2014 and effective steps had not been taken to protect and improve the market share.

4.12 Vehicle Utilization

Following observations are made.

(a) Out of the 47 Company owned vehicles, 10 had been out of running for 2 years and out of this, 04 motorcycles that were purchased at a price of Rs. 115,800 each had been out of service for over 10 years. Action had not been taken to disposal of these vehicles according to the instructions of the Circulars.

(b) Thirty nine vehicles of the Corporation has run 938,027 km during the year under review and a total sum of Rs. 19,324,359 had been spent as Rs. 131,102,534 for 132,362 litres of fuel and Rs. 6,222,825 for vehicle maintenance expenses. In addition, salaries and various allowances were paid to drivers' such as salaries, overtime payments, incentives, insurance allowances, accommodation allowances. But, vehicles had been obtained on rental basis, obtained with drivers and fuel and these vehicles had run 432,877 km and they had been paid Rs.20,028,718 as rent.

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals

Every public institution should act in compliance with the United Nations Sustainable Development Agenda for the year 2030. With respect to the year under review, the Sri Lanka Rupavahini Corporation had been aware as to how to take measures relating to the activities under purview of their scope through International New Assignments and Media. Following observations are made in this regard.

(a) Even though the Corporation had been aware about the Agenda for the year 2030, Milestones in achieving the targets of the sustainable development for measure the activities thereto had not been identified for the need to regulate the activities in reaching sustainable development goals

(b) Though the existence of accurate statistical data is compulsory for to measure uating the performance of a certain activity, it was observed that the Corporation had not taken action to maintain an accurate collection of data in view of measuring the achievement of sustainable development goals. It was further observed that the Corporation had not issue any circular or instructions to implement the 2030 agenda for sustainable development objectives.

(c) Although it is necessary to coordinate with other institutions when preparing to achieve sustainable development goals, it was observed that the planning and pre-preparation process had been in a very poor level to achieve sustainable development objectives due to the lack of identified other government institutions to coordinate with the corporation.

6. Accountability and Good Governance

6.1 Internal Audit

(a) Even though the Internal Audit Division of the Corporation had issued 20 Audit queries and reports in the first six months and 16 audit queries and reports issued in the latter half of the year under review, the attention had not been paid by the Management to rectify many issues shown in such queries and reports and to implement important suggestions made therein.

(b) The Cadre approved to the Corporation by the Management Services Department on 30 June 2011 only two positions as Internal Auditor and Internal Auditing Officer had been approved. However, by the 31 December 2017, the Internal Auditing Division consist of 06 staff including that 02 approved posts and 04 Management Assistants. But out of that only 02 professionally qualified were deployed.

(c) Replies had not been given for 11 audit queries issued by the Internal Audit Division during the period from the year 2014 to 2017 to the Marketing Division which is holding the main responsibility to earn income of the Corporation even by 30 June 2018.

6.2 Procurement Process

A procurement plan for the year 2017 including major investment, capacity expansions and other major procurements proposed by the Action Plan had not been prepared.

6.3 Budgetary Control

It was observed that there were unfavourable variation from 26 per cent to 734 per cent between the budgeted and actual financial data of the main operating activities in the year under review and also observed the Budget had not been used as an effective instrument in operating activities.

6.4 Annual Reports tabling in the Parliament

Annual Reports for the years 2014 and 2015 had not been tabled even in the Parliament even by April 2018.

6.5 Unresolved Audit Paragraphs

Audit paragraphs that have not been adequately addressed even reported by previous audit reports are as follows.

(a) Even though, an officer who was appointed for the post of Assistant Director from March 2016 predated to 22 October 2005 was not entitled to a reimbursement nature transport allowance, a sum of Rs. 1,059,810 had been paid as transport allowances during the period from October 2005 to March 31st 2016 and action had not been taken to recover that amount.

(b) The Secretary of the Ministry of Mass Media and Information decided to discuss with the Secretary, Ministry of Defence and Urban Development in order to resolve the issue regarding the ownership of the land with an assessment value of Rs. 46,018,720 at Bauddhaloka Mawatha, Colombo, by the Cabinet decision No. අමප/14.0376/537/003 dated 05 May 2014, But Until the end of the year under review, both Secretaries had not discussed this issue.

(c) A private Media Company had been given facilities to maintain a radio station at the Transmission Centre in the Deniyaya broadcasting station, belonging to the Corporation and to fix an antenna and Transmission equipment without any agreement. The facility had been provided from July 2012 to 30 April 2013 and a sum of Rs.3,622,274 for rent, electricity and tax recoverable for the period had not been recovered until the end of the year under review.

7. System and Control

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the corporation from time to time. Special attention is needed in respect of the following areas of control.

	Area of System and Control		Observations
(a)	Financial Control	(i)	Issuance of advances not complying with the circular instructions and non-recovery during the prescribed period.
		(ii)	Action not taking as per financial regulation regarding dishonoured and cancelled cheques.
		(iii)	Delay in recovery of Client loans
		(iv)	Granting credits to clients exceeding the credit limits
		(v)	Non- obtaining agreed contra trade services.
(b)	Non-compliances with laws, rules and regulations		Payment of various allowances contrary to the Circular Provisions.
(c)	Staff Administration	(i)	Granting appointments and paying salaries and allowances contrary to the circular instructions for non -approved management level posts.
		(ii)	Making long term acting appointments
(d)	Market Share		Not taking sufficient steps to protect and develop market share.
(e)	Internal Audit		Not taking action to rectify the shortcomings pointed out by the audit queries and audit reports from the Internal Audit Division.